

CITY COUNCIL REPORT

DATE: May 18, 2020

TO: Mayor, Vice Mayor, and Councilmembers

FROM: Barney Helmick, Flagstaff Airport Director

CC: Greg Clifton, Shane Dille, Shannon Anderson, Heidi Hansen, Stacy
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SUBJECT: Federal funding relief to support Flagstaff Airport operations

This City Council Report is to address questions regarding federal funding available to help American and United Airlines, car rental agencies, and our fixed fuel base operator (FBO), that are essential to our Flagstaff Airport operations.

1. City CARES Act funding

The City will be receiving about \$18.1 million in federal funding to help support Flagstaff Airport operations. This funding is being awarded under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

City staff is proposing to amend our leases with American Airlines, United Airlines, car rental agencies, fixed base fuel operator, and a concessionaire to provide rent relief. These amendments are because airline travel has virtually ceased since mid-March 2020 due to the COVID-19 flu pandemic. City staff is proposing that lessees be provided rent relief for six (6) months, at a cost of approximately \$356,785. If conditions merit, rent relief may be provided for up to one year. City staff proposes to use CARES Act funding to abate rent in consideration for lessee commitments to continue operations at the Flagstaff Airport.

The City's goal in assisting our airlines is to sustain our two carriers that we have worked years to obtain for Flagstaff business and leisure travel. When Horizon Air left our market, staff spent years attending airline conferences, establishing and implementing marketing strategies, adding enhancements to our airport terminal, and more in order to secure additional service and keep our current service. During that time, we shared with several airlines the growth of our University and student population, our top 20 employers, visitation, and our advancing business sectors. These factors all played a key role in the service we have currently with American and United.

In order to have our smaller airport continue receiving airline service, we need to be the best partners we can be so they will continue to invest in Flagstaff by offering routes. The airlines are having to make hard decisions on where they can continue service and the larger hubs will more than likely receive most of the routes, pilots, and planes. Therefore, Flagstaff needs to remain competitive and show we understand the dilemma they are facing and be willing to work with them during this unprecedented time. It's important to also note that the airline service and car rental agencies also assist in getting our visitors to the Grand Canyon National Park which is an overall economic driver for our community. The Grand Canyon has no night life amenities and we are fortunate to have so many visitors take a day trip to this natural wonder and choose to spend their evenings in Flagstaff.

Federal Aviation Administration (FAA) Guidance dated April 4, 2020 to airport sponsors provides that considering the COVID-19 flu pandemic a decision to abate rent including waiver of minimum annual guarantees (MAG) and encompassing fees, is a local decision.

2. Airlines CARE Act funding

Airlines have received financial assistance in the form of both grants and loans from the Payroll Support Program (PSP) created through the CARES Act. However, these funds are targeted to support team member salaries and benefits only. The airlines are not able to use their federal funding to cover other kinds of operational costs, rent, or debt payments.

Car rental agencies, the fixed fuel base operator, and our sole concessionaire (beverage and food service) at the Flagstaff Airport have not received direct grants or loans under the CARES Act.

Under all the lease amendments, the City will require the lessees to notify the City if, and when they do receive additional financial relief due to the COVID-19 flu pandemic. The City will then decide whether it remains appropriate to continue providing rent relief.

Information only.